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MUTUAL FUND DIRECTORS FORUM
The FORUM *for* FUND INDEPENDENT DIRECTORS

January 10, 2011

Ms. Elizabeth M. Murphy
Secretary
United States Securities and Exchange Commission
100 F Street N.E.
Washington D.C. 20549

Re: President's Working Group Report on Money Market Reform, File No. 4-619

Dear Ms. Murphy:

The Mutual Fund Director's Forum[1] ("the Forum") welcomes the opportunity to respond to the request for comments by the Securities and Exchange Commission ("Commission") on the recent Report of the President's Working Group on Financial Markets on Money Market Fund Reform Options.[2]

The Forum, an independent, non-profit organization for investment company independent directors, is dedicated to improving mutual fund governance by promoting the development of concerned and well-informed independent directors. Through continuing education and other services, the Forum provides its members with opportunities to share ideas, experiences, and information concerning critical issues facing investment company independent directors and also serves as an independent vehicle through which Forum members can express their views on matters of concern. A significant number of the Forum's members are responsible for overseeing money market funds and so are highly interested in the outcome of the ongoing debate on the regulation and governance of money market funds.

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As the *Report*, the Commission and other regulators, market participants and commentators have recognized, money market funds were deeply and negatively affected by the economic crisis and market turmoil of 2007-2009. Those events exposed weaknesses in our system of financial regulation, including weaknesses in money market fund regulation. At the same time, however, it is important to recognize that the recent crisis was neither limited to nor caused by the money market fund industry – rather, the crisis affected the entire financial system

1 The Forum's current membership includes over 600 independent directors, representing 84 independent director groups. Each member group selects a representative to serve on the Forum's Steering Committee. This comment letter has been reviewed by the Steering Committee and approved by the Forum's Board of Directors, although it does not necessarily represent the views of all members in every respect.

2 Report of the President's Working Group on Financial Markets: Money Market Fund Reform Options (October 2010) [hereinafter "*Report*"].

and money market funds, like virtually every part of the financial system, were caught up in the cascading events.

The Commission has already taken important steps to address these weaknesses including, importantly, the adoption of significant amendments to rule 2a-7 designed primarily to enhance the risk-limiting constraints and improve the liquidity of the funds. The Forum strongly supported these efforts and continues to believe that, as a general matter, the adopted rule amendments are likely to make money market funds much more resilient in the face of future market disruptions.

Given the ongoing efforts both in the United States and worldwide to identify and mitigate sources of systemic risk in the financial system, we recognize the importance of the Commission's continuing consideration of potential fundamental changes to the structure of money market funds. While the Forum is not in a position to offer detailed economic analysis of the proposals in the *Report*, given our members' experience both as the independent directors of money market funds and as experienced participants in the broader economy, we do have views on how the proposals outlined in the *Report* should be considered.

First, and most fundamentally, we are pleased that the *Report* recognizes the importance of money market funds as providers of credit to businesses, financial institutions and governments[3] and that proposals for reform therefore need to be considered not just as a means of mitigating systemic risk, but also in light of the impact reform could have on capital formation and the provision of credit in the broader economy.[4] Second, we appreciate that the *Report* recognizes that money market funds provide a unique and efficient means for many investors to access the short-term credit markets. Without money market funds, retail investors in particular would have virtually no choice about where to invest their cash apart from banks and government-insured bank deposits. Those investors would also effectively lose their ability to access short-term credit markets. For investors who seek to invest their cash efficiently, money market funds thus provide a critical competitive option.

Based on these two key facts, we, like other commentators, are concerned that if money market funds are changed in a way that makes them significantly less attractive to investors, both investors and the underlying credit markets that depend on money market funds will be adversely affected in a manner that may harm the markets and the economy more broadly.[5] We are

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3 *See, e.g., Report* at 7 (noting the importance of MMFs as providers of credit and that MMFs "play a dominant role in some short-term credit markets.").

4 Many of the Forum's members have experience in the financial services industry, in major corporations and as the owners and operators of small businesses throughout the United States, and thus have a strong understanding of the critical role money market funds play in the capital markets, and particularly in the provision of short-term credit to many companies and governmental entities.

5 A number of commenters made this point in response to the Commission's most recent amendments to rule 2a-7, and particularly in response to the Commission's request for comments on eliminating stable value funds. *See, e.g.,* Letter from David T. Hirschman, President, Center for Capital Markets Competitiveness of the United States Chamber of Commerce to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission (Sept. 8, 2009) at 2, 4-5; Letter of the Government Finance Officers Association *et al.* to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission (Sept. 8, 2009); Letter of Karrie

therefore troubled by proposals for fundamental change – for example, proposals to eliminate (or limit access to) stable-NAV money market funds or to treat money market funds as special-purpose banks. While changes of this type arguably might reduce the risk of broad-based runs on money market funds, they would also radically change the product, likely make it much less attractive to investors and thereby have unintended consequences potentially worse than the mitigated risk. Further, as the *Report* recognizes, adoption of these types of proposals could well lead institutions and more sophisticated investors to place their funds in unregulated or offshore money market fund substitutes, thereby both limiting the applicability of the current regulatory regime to those funds and creating systemic risk above and beyond that created by existing, regulated funds.[6]

We therefore do not support changes of this type. At the very least, before changes of this nature are seriously considered, we encourage the Commission carefully to examine the other, less dramatic proposals outlined in the *Report* and rigorously investigate the potential unintended consequences of any proposal calling for fundamental change. As an initial matter, we believe that suggestions such as those directed at the creation of private liquidity facilities or perhaps even insurance markets for money market funds should be investigated. The more focused nature of this type of reform is likely a more effective way of addressing the remaining risks posed by money market funds while simultaneously preserving their benefits.[7]

More broadly, however, given the clear benefits of money market funds, the Commission and other regulators and policy makers need to address the question of how much risk is acceptable and whether enough has already been done to mitigate that risk. After all, as a matter of reality, the risk inherent in investing as well as the risk connected with a financial system generally can never be completely contained or eliminated. Thus, approaching the regulation of money market funds with the goal of eliminating (or virtually eliminating) risk is not fruitful. Despite the events of the recent economic crisis, apart from a few well-documented exceptions, the money market fund industry has generally operated and been regulated very successfully. In addition, as noted above, money market funds did not cause the recent problems, but rather were caught up in a broader market crisis. In our opinion, it is worth considering whether the guiding principle of the *Report* that "more should be done to address systemic risk and the structural vulnerabilities of MMFs to runs" is appropriate.[8] It may well be that the Commission's recent

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McMillan, General Counsel, Investment Company Institute to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission (Sept. 8, 2009) at 45-46.

6 *See* Report at 35. The *Report* suggests that this risk could be addressed by legislative and regulatory changes designed to eliminate or restrict these alternatives, *see id.*, but there is no guarantee that effective changes could be designed and implemented. Given that systemic risk cannot be entirely eliminated, we believe that that it is preferable for money market funds to remain sufficiently attractive that investors desiring this type of product will place their money in regulated funds where it will be subject to both the risk-limiting and reporting obligations of the current regulatory system.

7 We recognize, however, that there may well be significant impediments, both practical and policy-based, to the implementation of these more moderate approaches. Many of the impediments are identified in the *Report*. *See also* Investment Company Institute, *Report of the Money Market Working Group* (Mar. 17, 2009) at 112-14.

8 *Report* at 5.

amendments to rule 2a-7 have done all that is reasonably possible to limit the risks to and posed by money market funds while still preserving the benefits of the funds.

It is well worth remembering that the oversight provided by an independent board of directors to money market funds (and mutual funds generally) is unique. While directors do not and should not manage the funds, their oversight and their ability to act in the best interests of the fund permits a greater degree of flexibility in the regulatory system than would be otherwise possible. Retaining the flexibility inherent in this system of oversight is likely another piece in the puzzle of limiting the systemic risks posed by money market funds.

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In conclusion, the ongoing debate over the future of money market funds is critically important. We urge the Commission to proceed carefully, and to fully weigh the benefits of money market funds against any risks inherent in their operation of money market funds.

We are pleased that the Commission plans further consultations with stakeholders and experts on these important issues before proposing further action. We would welcome the opportunity to be a part of those discussions, and to further discuss not just our comments, but how independent directors can continue to play a role in ensuring a healthy and robust money market fund industry. Please feel free to contact me or Susan Wyderko, Executive Director of the Forum, at 202-507-4488.

Sincerely,

David B Smith, Jr.
Executive Vice President and General Counsel

cc: The Honorable Mary L. Schapiro
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
The Honorable Troy A. Paredes

Jennifer McHugh, Acting Director, Division of Investment Management